

Nevada Hospitals' Mission:

Ensuring that high-quality, affordable, appropriate health care services remain available for all Nevada residents and guests, resulting in healthier Nevada communities.



Hospital Certificate of Need: Rural Necessity, Urban Expense

Issue: Certificate of Need (CON) laws require that hospitals or other parties must obtain approval, referred to as a Certificate of Need, from a State review agency before building new health service facilities. Nevada currently requires a CON review in rural areas for facilities and new equipment that exceed \$2 million, but not urban areas.

Proposals have been made to eliminate CON for rural hospitals. However, doing so would likely increase costs and could result in the closure of some essential rural hospitals. On the other hand, CON is not needed in competitive urban areas, where it would only interfere with the market forces that bring new services on line quickly and keep costs under control.

How It Works: CON laws were originally developed decades ago to protect the government and other insurers from excessive health care costs. At that time, Medicare and other payers reimbursed hospitals based on their actual costs, including building and major equipment costs. Under this cost-based payment system, the more money hospitals spent on new buildings and equipment, the more money they received, even if there was no demonstrated need for the additional facilities. CON was intended to prevent overbuilding by requiring hospitals to make a case, based on community medical needs, for building new facilities or adding major equipment.

Since then, insurers have switched from cost-based payments to fixed payments for services. Under this fixed payment system, hospitals make money if they keep costs below the payment level, but lose money if their

fairness

A rational CON policy: Flexibility to meet growing needs in competitive urban markets; preserving hospital access in small rural markets

costs exceed payments. This creates a powerful financial incentive for hospitals to avoid unnecessary costs. In fact, in today's competitive health care markets, such as Las Vegas and Reno, CON would raise costs and limit availability of care by reducing competition, increasing paperwork and delaying construction. It would also require the State to pay for an expensive CON review system. Therefore, CON requirements are no longer needed to deter unnecessary building, and appropriately, CON review is not required in urban areas.

However, in rural markets served by just one hospital, CON laws still serve an important function. Currently, Nevada requires CON review for projects in rural areas that exceed \$2 million in value. This helps preserve community access to essential services, such as 24/7 emergency care as well as inpatient care for acutely ill and injured patients, by preventing competitors from driving hospitals out of business in markets where the population is not large enough to support more than one health care provider. It also holds down overall costs by preventing overbuilding in rural communities.

Health care competition lowers costs and improves availability of services in urban areas.

Predatory competition can threaten availability of 24/7 emergency care and other essential hospital services in rural areas.

For example, it might appear that allowing construction of a nonacute health care facility, such as a lower cost ambulatory surgery center (ASC), in a rural community would save patients money. However, it could actually increase overall costs in the community if the population is not large enough or growing fast enough to support additional health care services. That's because the hospital would still have to maintain the necessary staff and facilities to provide mandatory 24/7 emergency care in addition to inpatient services, typically not available in less comprehensive facilities. The resulting loss of revenue could even force some hospitals to close.

This is not to say that an ASC or other health care provider should not be allowed to compete with a rural hospital—however, not at the expense of essential hospital services, such as 24/7 access to emergency care. A transparent CON process gives providers the opportunity to demonstrate how the community can benefit from a new service without threatening access to essential hospital services.

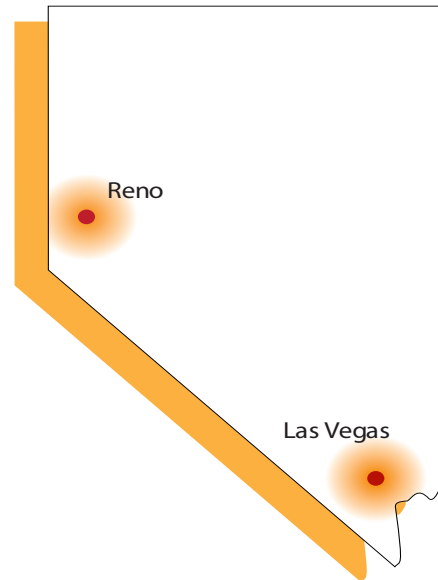
Effect on Patients: Eliminating CON protection for rural hospitals could cost Nevada businesses and residents in three ways. First, any increase in overall costs would be paid mostly by private businesses that provide health insurance to employees. Secondly, any rural hospital closure would cost the community jobs and make the area less attractive to future business development. Thirdly, and most importantly, the loss of essential health care services could result in delayed medical treatment and poor health outcomes for rural Nevada residents.

Solution: CON should be addressed differently in urban and rural markets because they have different needs. Nevada’s existing CON policies provide the appropriate level of oversight to give entrepreneurial health care providers the flexibility required to respond to the health care needs of Nevada’s urban population while protecting access to vital hospital services in rural and frontier areas. Any change should be evaluated based on how well it preserves the balance of access and cost in Nevada’s many diverse communities.

Certificate of Need is ...

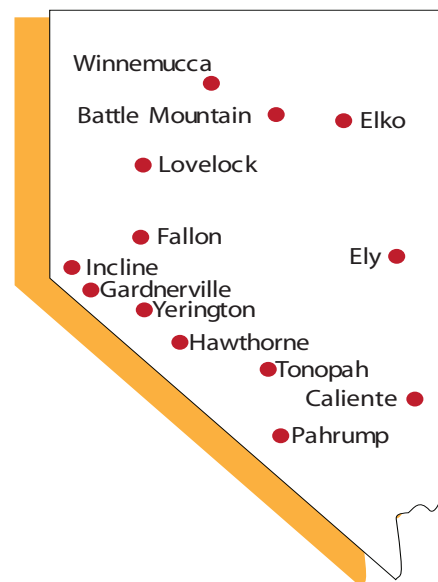
... an Urban Burden

In large urban markets, competition for new business encourages full-service acute care hospitals to create new services while keeping costs down. Most services are offered by several competitors so, even if one closes, the community still has access at other facilities. Therefore, a CON regulatory process is not required to protect access to essential services, such as 24/7 emergency care. In cities, CON only interferes with market competition, raising costs and delaying new services.



... a Rural Boon

In many rural communities, however, the population is not large enough to support more than one hospital. In these areas, competition from ambulatory surgery centers (ASCs) or other limited-service health care providers can cut deeply into revenues that hospitals rely on to provide a full range of health care services, including 24/7 access to emergency care and acute inpatient treatment. If a limited-service competitor forces a hospital out of business, patients lose access to these essential health care services. In rural areas, a CON review is needed to ensure that predatory competition from limited-service facilities does not destroy access to essential health services.





key points: hospital certificate of need

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Proposals have been made to eliminate CON for rural hospitals. However, doing so will likely increase costs and may result in the closure of some essential rural hospitals. On the other hand, CON is not needed in competitive urban areas, where it would only interfere with the market forces that bring new services on line quickly and keep costs under control.

- CON regulation should be addressed differently in urban and rural markets because they have different needs. Rural communities need CON to prevent the loss of essential hospital services due to predatory competition. Urban communities do not need CON because multiple hospitals offer overlapping services, and CON interferes with efficiency and competition.

Urban Markets

- Competition is the most effective way to make sure that hospital services needed in Las Vegas and Reno are built and remain efficient.
- There is no need to introduce CON in urban markets. In heavily populated communities, CON only raises costs and delays introduction of necessary new services.
- Introducing CON in urban markets would require hiring additional State workers to run the process. That would waste already scarce State funds.



key points: hospital certificate of need

Rural Markets

- Eliminating CON for rural areas could force the closure of some hospitals, resulting in the loss of 24/7 emergency care and other essential health care services in remote communities.
- Although there are a number of people who would like to open ambulatory surgery centers or other limited-service health care facilities, this would skim the most profitable services from struggling rural hospitals. The CON process prevents this type of predatory competition.
- We need CON to make sure that our rural communities keep the full range of health care services provided by their hospitals.
- Since Nevada's CON law is not broken, it does not need to be fixed. We need CON policies that work in every part of the state as currently allowed.